

Message Text

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ACTION AF-08

INFO OCT-01 ISO-00 EUR-12 AID-05 CIAE-00 COME-00 EB-07

FRB-01 INR-07 NSAE-00 USIA-15 TRSE-00 XMB-04 OPIC-06

SP-02 CIEP-02 LAB-04 SIL-01 OMB-01 AGR-10 IGA-02 L-03

/091 W

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R 121000Z AUG 76

FM AMCONSUL JOHANNESBURG

TO SECSTATE WASHDC 4978

INFO AMEMBASSY PRETORIA

AMCONSUL CAPE TOWN

AMCONSUL DURBAN

UNCLAS JOHANNESBURG 1348

E.O. 11652: N/A

TAGS: ETRD, EFIN, EGEN, BEXP

SUBJECT: REACTIONS TO SOUTH QLFORT DEPOSIT REQUIREMENTS

REFSC A) PRETORIA 3370 B) JOHANNESBURG 1267; C) JOHANNESBURG

A-64, AUGUST 9

THE PRESTIGIOUS BUSINESS WEEKLY, THE FINANCIAL MAIL OF AUGUST 6 REPORTED ON CURRENT ASPECTS OF THE SOUTH AFRICAN IMPORT DEPOSIT SCHEME UNDER THE HEADLINE "IMPORT DEPOSITS - RISKY BORROWING" AS FOLLOWS:

QUOTE PREDICTABLY, PRETORIA HAS STARTED TO GRANT CONCESSIONS TO HARDPRESSED IMPORTERS. ON MONDAY, THE RESERVE BANK INFORMED FOREX DEALERS THAT IMPORTERS COULD BORROW ABROAD FOR IMPORT DEPOSIT PURPOSES. PREVIOUSLY SHORT-TERM FOREIGN BORROWING WAS LARGELY RESTRICTED TO FINANCING THE MOVEMENT OF GOODS.

LOANS FOR IMPORT DEPOSIT PURPOSES MUST SATISFY THE FOLLOWING CONDITIONS: THEY MUST BE FOR A MINIMUM OF SIX MONTHS;

THE RATE OF INTEREST MUST BE REASONABLE;

THE LOAN CAN ONLY BE REPAID ON DUE DATE, NOT EARLIER; AND

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FORWARD COVER WILL NOT BE EXTENDED.

BANKS MUST SUBMIT WEEKLY STATEMENTS TO PRETORIA INDICATING BORROWER AMOUNT, INTEREST RATE AND DUE DATE.

AT FIRST GLANCE THE CONCESSIONS SEEM GENERAOUS TO IMPORTERS, WHO ARE STRUGGLING TO RAISE MONEY DOMESTICALLY. NOT ONLY IS THERE STILL PLENTY OF SHORT-TERM FOREIGN MONEY FOR SA BORROWERS, BUT EURO-CURRENCY RATES ARE ALSO SUBSTANTIALLY BELOW LOCAL LEVELS. FOR EXAMPLE, IMPORTERS COULD PROBABLY BORROW EURO-DOLLARS AT A MARGIN OF 1PCT-2PCT OVER THE CURRENT INTERBANK OFFERED RATE OF 6.375PCT. THEY COULD ALSO GET EURO DM AT 5PCT PLUS THE MARGIN, OR EVEN SWISS FRANCS AT ABOUT 2.5PCT PLUS THE MARGIN.

HOWEVER, THE LACK OF FORWARD COVER IS A SERIOUS DETERRENT. WITH THE RESERVES STILL PLUNGING (BY R43 LAST WEEK) AND THE GOLD PRICE STILL SHAKY, MARKET MEN HAVE NOT RULED OUT A DEVALUATION. IF SO, IMPORTERS WHO GET THEMSELVES LOCKED IN TO LOANS FOR SIX MONTHS COULD TAKE SOME NASTY KNOCKS.

INDEED BANKERS REPORT ONLY A DRIBBLE OF ENQUIRIES. INSTEAD OF TAKNG UP THESE FACILITIES, CLIENTS - ESPECIALLY THE BIGGER ONES- ARE LOOKING TO WAYS OF REARRANGING THEIR FINANCING MIX BY USING MORE FOREIGN FACILITIES FOR THE FINANCING OF GOODS (ON WHICH COVER IS AVAILABLE) AND FREEING DOMESTIC FACILITIES FOR DEPOSIT PURPOSES. UNQUOTE.

COMMENT. OUR SOURCES IN THE BANKS AND THE TRADE TELL US THAT, AS STATED IN THE FINANCIAL MAIL SUMMARY, "FORWARD COVER WILL NOT BE EXTENDED" MEANS, IN FACT, THAT THE RESERVE BANK WILL TURN DOWN FORWARD COVER APPLICATINS. IN OTHER WORDS, OUR SOURCES SAY, THE GOVERNMENT IS GIVING WITH OE HAND AND TAKING WIT ANOTHER. IN ANY EVENT, GIVEN THE INTEREST OF US FIRMS IN THE IMPLICATIONS OF THE IMPORT DEPOSIT SCHEME PROMULGATED BY THE SOUTH AFRICAN GOVERNMENT EFFECTIVE ON AUGUST 2ND, SOME OF THE PRACTICAL EFFECTS AS SEEN BY OUR OBSERVERS ARE

WITH THE EFFECTIVE RATE NOW IN THE SOUTH AFRICAN MARKET FOR SHORT TERM MONEY OF 14 PERCENT, (PRIME OF 12.5 PLUS POINTS) THE EFFECTIVE COST
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ADDED TO IMPORTS WILL BE AN ADDITIONAL 1 AND 1/4 PERCENT. NOTWITHSTANDING THE DENIAL OF FOREWARD COVER APPLICATIONSV THEREFORE, IMPORTERS WILL SPECULATE ON THE NON-DEVALUATION OF THE RAND IN THE SHORT TERM SINCE BORROWING IN DOLLARS AND PAYING IN DOLLARS STILL MEANS THAT THE COST OF MONEY IS CHEAPER ABROAD BY A FACTOR CONSIDERABLY LESS THAN THE PROBABLE LOSS IN EXCHANGE SHOULD THERE BE A DEVALUATION OF THE RAND. AS REGARDS US FIRMS NOW OPERATING IN SOUTH AFRICA, OUR SORCES

LARGELY CONFIRM THE FINANCIAL MAIL'S COMMENT THAT FIRMS "ARE
LOOKING TO WAYS OF REARRANGING THEIR FINANCING MIX BY USING MORE
FOREIGN FACILITIES".

THIS CONFIRMS OUR FINDINGS IN REFTEL. MOREOVER, SINCE MOST US
(AND OTHER FOREIGN FIRMS, BU PARTICULARLY THE CONTINENTALS
INCLUDING THE FRENCH AND WEST GERMANS) ARE MORE CONCERNED WITH
CONSOLIDATED BALANCE
SHEETS AND THUS THEIR US DOLLAR POSITION (OR FRANCS OR MARKS)
AND NOT THEIR RAND POSITION, MOST OVERSEAS PRINCIPALS ARE EXTENDING
"FOREIGN FACILITIES" TO THEIR SOUTH AFRICAN OPERATIONS TO CUT
COSTS AND TO SEEK TO MAINTAIN THEIR MARKET
POSITION. THE SMALLER SOUTH AFRICAN FIRMS ARE AFFECTED SINCE
GIVEN THEIR VERY DIFFICULT CASH FLOW POSITIONS, IT
IS HARD INDEED TO RAISE THE IMPORT DEPOSITS REQUIRED.
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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: COMMODITIES, IMPORT CONTROLS, FINANCIAL PROGRAMS, LOANS
Control Number: n/a
Copy: SINGLE
Draft Date: 12 AUG 1976
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Authority: n/a
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01 JAN 1960
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1976JOHANN01348
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D760310-0619
From: JOHANNESBURG
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1976/newtext/t19760861/aaaacbbo.tel
Line Count: 130
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION AF
Original Classification: UNCLASSIFIED
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: n/a
Previous Handling Restrictions: n/a
Reference: 76 PRETORIA 3370, 76 JOHANNESBURG 1267
Review Action: RELEASED, APPROVED
Review Authority: blochd0
Review Comment: n/a
Review Content Flags:
Review Date: 27 FEB 2004
Review Event:
Review Exemptions: n/a
Review History: RELEASED <27 FEB 2004 by ReddocGW>; APPROVED <24 JAN 2005 by blochd0>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
04 MAY 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: REACTIONS TO SOUTH QLFORT DEPOSIT REQUIREMENTS
TAGS: ETRD, EFIN, EGEN, BEXP
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006